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Thomas B. Leonardi
Chairman & CEO

Northington Partners, Inc.

Testimony of Northington Partners, Inc. regarding Committee Bill No. 815 **AN ACT CONCERNING A MORATORIUM ON BUSINESS TAX CREDITS.**

February 9, 2009

Senator Eileen Daily, Chair
Representative Cameron C. Staples, Chair
Finance, Revenue and Bonding Committee
Room 3700, Legislative Office Building
Hartford, CT 06106

Dear Sen. Daily, Rep. Staples, and Members of the Committee:

Northington Partners would like to express its strong opposition to Raised Bill No. 815 and its potential impact on the Insurance Reinvestment Fund Act (the "Act"), Section 38a-88a of the General Statutes. Raised Bill No. 815 is inconsistent with the representations the Connecticut General Assembly made to Connecticut taxpayers in order to induce them to invest in new insurance businesses in Connecticut, and will have a chilling effect on future investment in Connecticut, undermining the Legislature's job creation efforts of the last decade.

As we are sure you are aware, the Act was passed in 1994 to encourage the development of new insurance businesses and jobs by granting tax credits to investors which were willing to assume the risk associated with creating funds to finance such new insurance enterprises. An eligibility certificate for the tax credit would be issued only if it could be established to the Department of Economic and Community Development that an insurance business occupying a new facility in Connecticut and employing new employees had, in fact, been established.

In 1994, shortly after the effective date of the Act, Northington Partners was approved as an authorized fund manager by the Connecticut Department of Insurance. During 1995, we began to raise money for a qualified investment fund under the Act. In 1998, we began to invest money in qualified new insurance businesses in reliance upon the Act. Those investments have fully met the objective tests set forth under the Act. Two-thirds of our investment dollars were fully vested as of December of 2007, and the remaining one-third became fully vested in December of 2008, the tenth and final year of the Act's ten-year schedule of tax credits.

Our investors relied upon the Act, as well as the terms of two Memorandum of Understanding (MOU) executed by the State of Connecticut's Commissioners of Revenue Services and Insurance in July of 1996. To propose limitations on the utilization of the tax credits eleven years after investors relied in good faith upon the terms of the Act to make their investments is egregious and unfair.

The Insurance Reinvestment Fund Act was proposed by then Senate President John Larson in 1994 to encourage the development of new insurance businesses and jobs by granting tax credits to investors which were willing to assume the risk associated with creating funds to finance such new insurance enterprises. In a letter addressed to the Finance, Revenue and Bonding Committee in February 2005 in support of the Act, Congressman John B. Larson, noted: "Studies show that three-quarters of all new jobs in the next decade will be created by companies smaller than 20 employees. Connecticut needs to encourage the creation and development of these small businesses. I strongly urge you not to entertain any changes to the existing law. This is an important economic development tool for Connecticut. We need more not less of these incentives to grow and maintain the insurance and financial service industries in our state." Investors and companies had every right and expectation that they could rely upon the Legislature's actions and the MOU signed by both Commissioners'. If the proposed legislation were to pass, it would constitute a grave breach of the understandings reached with the investment community, and potentially create serious damage to investors and companies that relied in good faith upon the earlier amendment.

This is not a question of simply eliminating state largesse or corporate welfare. The companies we have invested in have passed up capital raising opportunities, merger and acquisition offers, diversification options, and foregone consolidation and efficiency gains in order to focus on CT employment and the requirements of the Act. Our investors have held their capital in these CT companies far longer than they would have in a conventional venture fund. These are real costs for both investors and investee companies incurred only because of the State's promises under the Act. The Act has tethered, sometimes detrimentally, these businesses to CT for over a decade.

In addition, changing the fundamental provisions of the Act twelve years after investors relied upon those representations by the State is tantamount to changing the rules after the game is over and could have a very negative, significant and lasting economic impact on those who relied in good faith on the Act. The legislation is likely to have a chilling impact on the success of numerous other tax incentives enacted by the General Assembly to promote job creation because taxpayers may no longer be willing to make significant investments in reliance upon legislative incentives that can be revoked or changed after they have been relied upon by the public. In addition, it will make it virtually impossible to create meaningful long-term incentives to attract businesses and jobs to Connecticut in the future, incentives that will likely be vital in any attempt to foster a meaningful recovery from today's severe economic downturn.

For all of the above reasons, we respectfully recommend that you deny the proposed changes.

Sincerely,

Thomas B. Leonardi
Chairman & CEO
Northington Partners, Inc.